Compensation
Advisory Partners

Summary Report // 2020

Private Company Board Compensation and Governance

This report is a summary analysis of a joint study by Compensation Advisory Partners, *Family Business* and *Private Company Director* magazines.

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Summary Report

Board members at privately held and family-owned companies play an important role in governance and oversight, and should be appropriately compensated for their contributions and efforts. An important question facing private companies is: What is the appropriate amount of compensation for these board members? This question has historically been difficult to answer because of a lack of data on private company board pay.

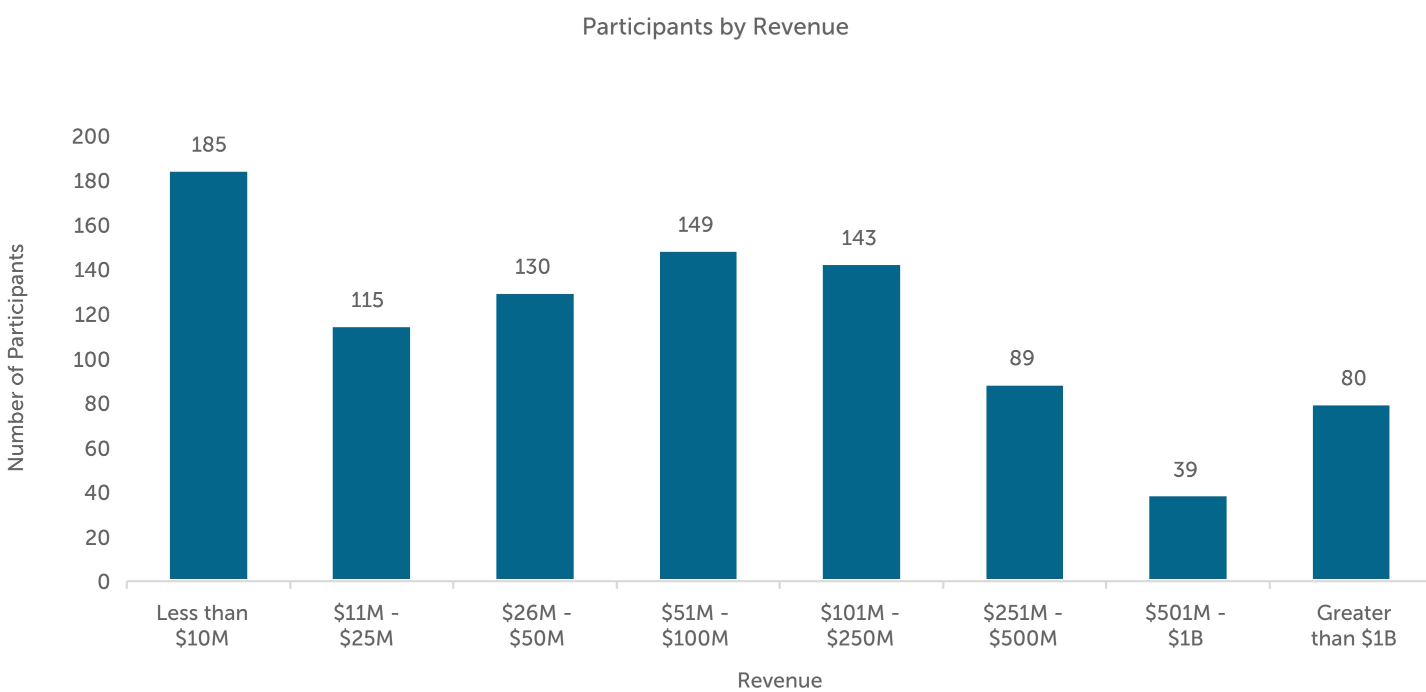
To address this data deficiency, *Family Business* and *Private Company Director* magazines and Compensation Advisory Partners (CAP) launched The Private Company Board Compensation and Governance Survey in 2019. The new 2020 iteration drew 982 responses. The high number of survey participants illustrates the enthusiasm for this data.

About the Survey Participants

The respondents represent a broad range of industries and revenue sizes. Manufacturing is the most prevalent industry in the survey (28% of respondents), followed by finance and insurance (10%); professional, scientific and technical services (9%); retail trade (7%); wholesale trade (7%); construction (6%); and real estate, rental and leasing (6%).

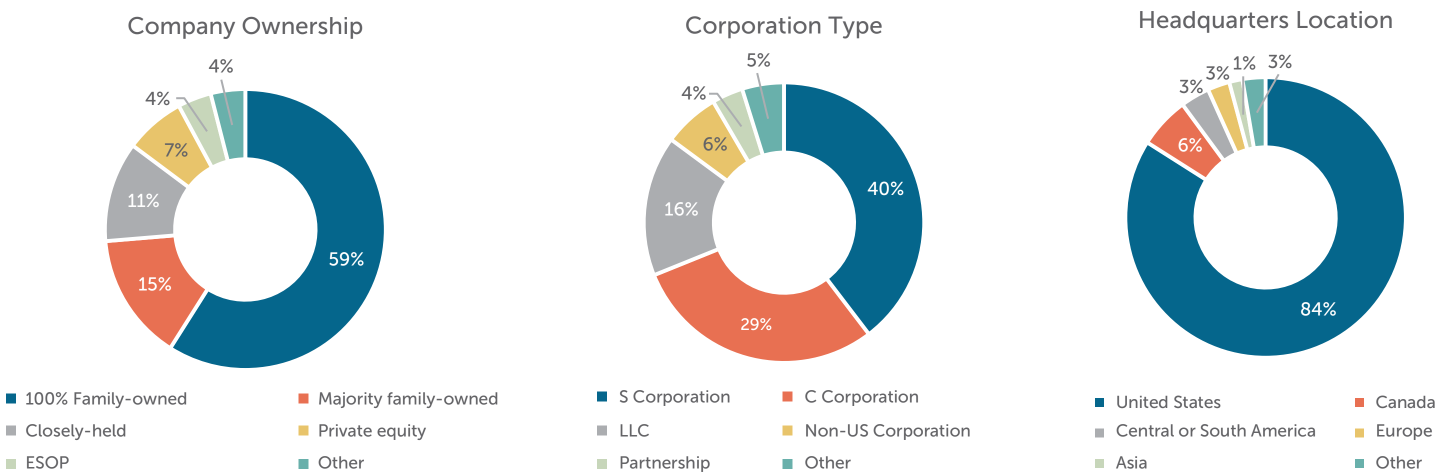
Participating companies span all different sizes as measured by revenue, number of employees and assets (financial services and insurance companies only). Exhibit 1 shows the distribution of responses across the different revenue ranges.

EXHIBIT 1



The majority of participating companies are 100 percent family-owned or majority family-owned or controlled. The survey also drew participation from companies that are closely held, private equity owned and owned by employees through employee stock ownership plans (ESOPs). The business structures represented include S corporations; C corporations; limited liability companies, or LLCs; partnerships; and other structures. Most participants are based in the United States, but the survey drew responses from all over the world. Nearly two-thirds of the respondents have fiduciary boards, while the remainder have advisory boards.

EXHIBIT 2



The Impact of COVID-19

The 2020 iteration of the survey asked participants to provide information about any director pay actions because of COVID-19. Approximately 15 percent of the participants indicated that changes to board compensation have been made because of the pandemic. The most common modifications are:

- Reduced cash retainers (49% of companies)
- Reduced meeting fees (23%)
- Eliminated cash retainers (18%)
- Eliminated meeting fees (12%)
- Increased fees for virtual meetings (3%)

The typical duration of the pay modifications is three to six months (30% of companies), followed by the remainder of 2020 (28%) and indefinite/to be determined (27%).

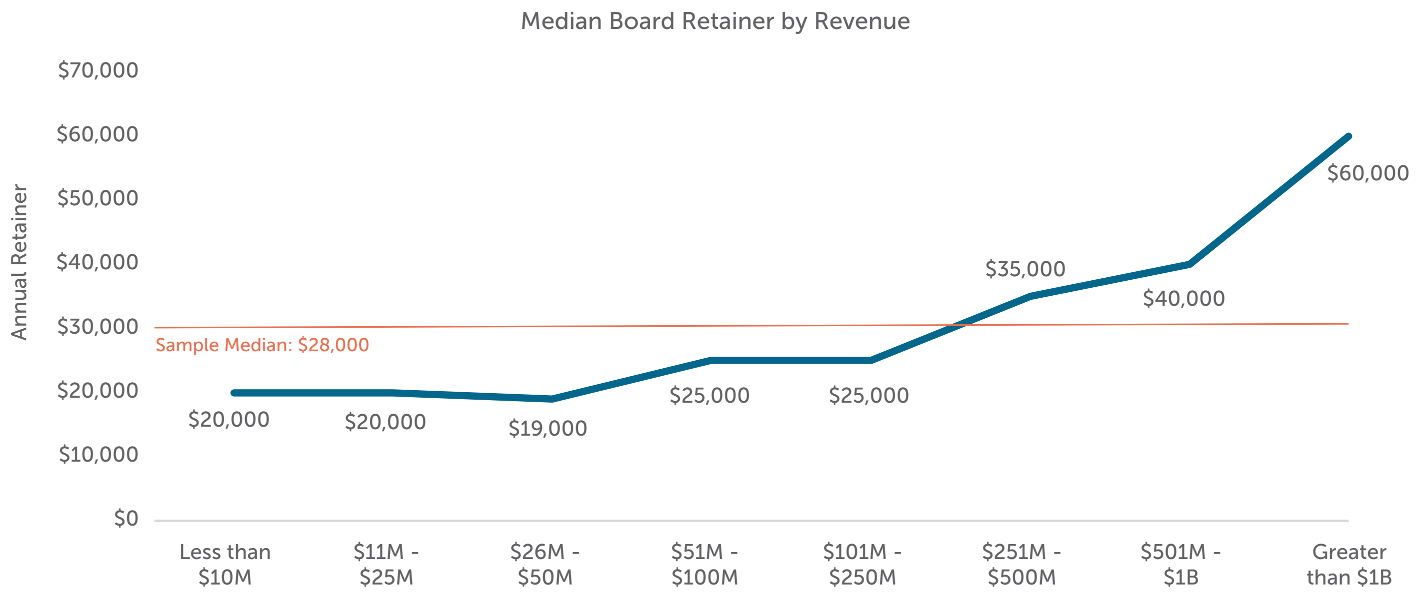
Compensation Components

The survey found that 86 percent of survey participants provide some form of compensation to board members. More than 51 percent of companies do not compensate inside directors (defined as family members, executives, or shareholders who serve on the board). For the companies that compensate inside directors, most of them compensate them on the same basis as the outside directors.

Annual Retainer

The typical director is compensated primarily through an annual cash retainer. Of the private companies surveyed, about half compensate directors through cash retainers only, while about 25 percent use both retainers and meeting fees. The median amount of the cash retainer is $28,000 for 2020, a slight decrease from $30,000 in 2019. This $2,000 drop in the overall survey median is the result of increased survey participation from smaller companies rather than changes in the compensation market. Board retainers are highly correlated with company size, as shown in Exhibit 3.

EXHIBIT 3



Long-Term Incentives

Not surprisingly, the survey found that the prevalence of long-term incentives for private company board service is low since private companies do not have stock that is easily liquid. About one in four private companies offer long-term incentives for directors, with real equity – stock options or restricted stock/units – being favored. Private companies' use of long-term incentives in board pay programs indicates that these companies are competing aggressively for board talent, and are working to retain board members and align them with the company's overall success. CAP expects this trend to continue and result in increased use of long-term incentives to compensate board members, especially in larger private companies.

Typical practices for private company long-term incentive awards are to grant the awards either annually or when the director is appointed to the board, and to have the awards subject to vesting, typically over three or more years.

Meeting Fees and Other Components

Other key survey findings are:

- The most common elements of cash compensation for private company directors are annual retainers (72%), travel reimbursements (68%), and in-person meeting fees (50%).
- Meeting fees continue to be used widely by private companies, while most publicly traded companies have migrated to retainers only. Of the private companies surveyed, about 25 percent use meeting fees as their only form of cash compensation.
- Like retainers, meeting fees vary with company size. The median per-meeting fee is $2,500. (See Exhibit 4.)
- The prevalence of telephonic/virtual meeting fees increased in 2020. This uptick is likely because of COVID-19 and the inability to meet in person for most of 2020. The median fee for telephonic/virtual meetings is $1,000.
- Some private companies provide additional compensation for board leadership roles. When the incremental leadership retainers are considered as a percentage of board retainers, the median percentage is 100 percent for the incremental board chair retainer and 37.5 percent for the lead director.
- The typical incremental retainer for a committee chair or a committee member is $5,000.

EXHIBIT 4

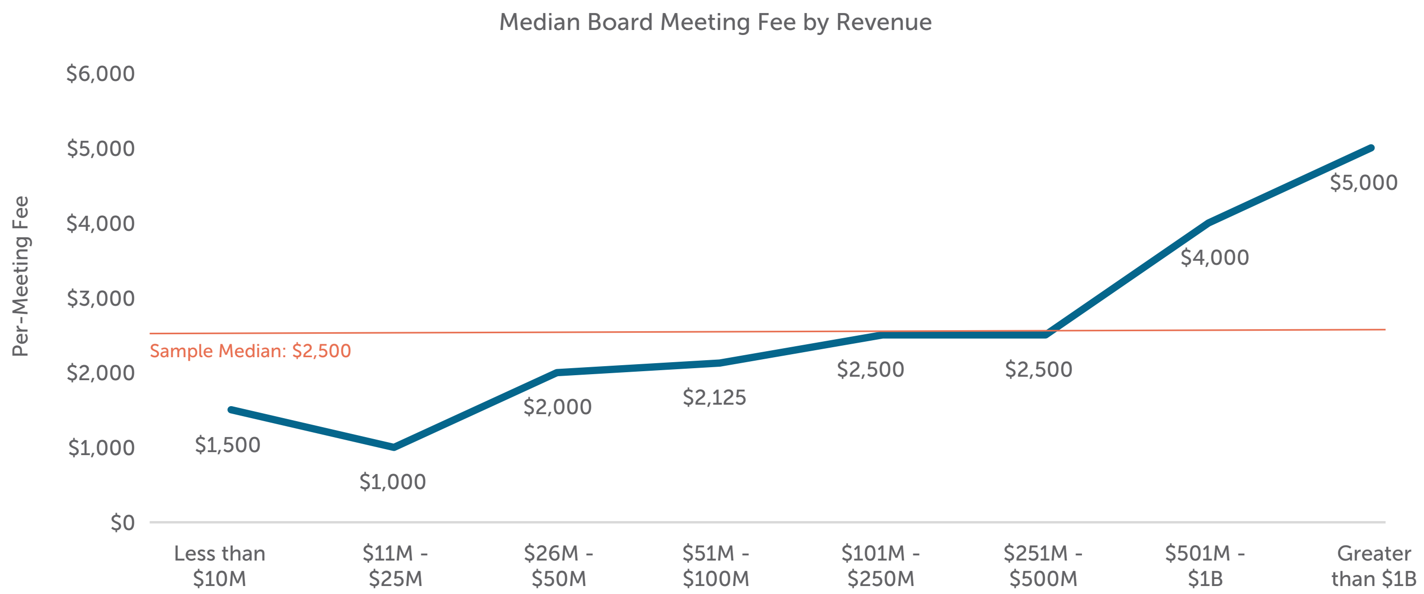


Table 1 summarizes the board compensation elements at median.

TABLE 1

	Median
Board Member Base Cash Compensation	
Annual Retainer	***$28,000***
Meeting Fee	***$2,500***
Board Chair Additional Cash Compensation	
Annual Retainer	***$20,000***
Meeting Fee	***$1,000***
Lead Director Additional Cash Compensation	
Annual Retainer	***$13,200***
Meeting Fee	***$1,500***
Committee Chair Additional Cash Compensation	
Annual Retainer	***$5,000***
Meeting Fee	***$1,000***
Committee Member Additional Cash Compensation	
Annual Retainer	***$5,000***
Meeting Fee	***$1,000***
Long-Term Incentive (Restricted Stock, Options, Cash)	
Incentive Value	***$50,000***

Governance Findings

In addition to benchmarking compensation levels and practices, the survey covers many governance issues, including board size, diversity, independence, workload, and committee structure.

The typical private company board ranges from six to 10 directors, with a median of eight directors. This reflects an increase in board size from 2019, when the typical board size was reported as five to eight directors, with a median of seven. The increase in board size over the past year indicates that private company boards have expanded to handle greater workloads or to obtain a broader range of leadership input and skill sets. The 2020 board composition is approximately half inside directors and half independent/outside directors, with a slight tendency toward having a greater proportion of inside directors.

The survey asked about the importance of board diversity and the number of women and minority directors. The 2020 survey saw an uptick in private companies indicating that diversity is “very important” or “extremely important.” This trend is expected to continue in the future given the current emphasis on diversity and inclusion. Of the survey respondents, 70 percent reported having one or more women on the board, while 24 percent reported having one or more minority members on the board. Future surveys will demonstrate whether private companies are able to add diverse members to their boards. The competition for talent could result in an increase in compensation levels to compete with public company boards, which are facing mounting public and investor pressure to increase diversity and representation on their boards.

Other governance findings are limited to survey participants.

Looking Ahead

Now that the Private Company Board Compensation and Governance Survey is in its second iteration, trends can be evaluated. The 2020 results were consistent with 2019 overall, which is not surprising: Board pay is not typically evaluated on an annual basis, so changes emerge slowly. Meeting fees increased at median, the typical board size increased, and respondents indicated heightened interest in board diversity. Trends that CAP expects to see in the coming years for private company board compensation and governance include:

- Increased workloads for directors at companies heavily impacted by COVID-19, which could lead to increased compensation or special awards in the future.
- Increased use of long-term incentives to recruit high-caliber directors and compete with public companies.
- Additional representation by women and minorities on private company boards.
- Increase in retainer payments for smaller companies to keep pace with the larger ones. There may be a minimum or “floor” value of compensation that represents an opportunity cost of choosing board work.
- Movement over time to a retainer-only compensation model similar to what public companies use.

Survey Contacts

The full survey results are limited to participants. If you are interested in a compensation assessment based on the survey data or are interested in participating in the survey in the future, please contact CAP.

- Bonnie Schindler, survey author, bonnie.schindler@capartners.com (Chicago office)
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